



# California Legislature

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## Joint Legislative Audit Committee

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August 12, 1982

P-222

The Honorable President pro Tempore of the Senate  
The Honorable Speaker of the Assembly  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members of the Legislature:

The Joint Legislative Audit Committee respectfully submits the Auditor General's report on the operation and management of the Long Beach Community Services Development Corporation.

This report was prepared by the Auditor General in response to several questions posed by Assemblyman Dave Elder. These questions pertain to the corporation's staffing and administrative expenses, selection of program participants and achievement of organizational goals.


The report focuses upon the concerns of former and current board members, and some delegate agency directors, regarding the disparity between the priority needs defined in the Long Beach community and those priorities contained within the corporation's work program. There is a perception that the corporation resources are not being utilized to benefit the low-income residents of Long Beach.

The Auditor General has concluded that the corporation did not recognize the needs defined by the community as being high priorities for resolution. Additionally, the corporation's program did not correspond to the priorities defined within its own needs assessment document.

The report also concludes that the corporation's budgeting is substandard in that administrative cost expenditures of 23% of all funds available to the corporation exceeded the 15% administrative cost rate allowed by the federal government. It is important to note that an additional \$154,000 spent by the corporation can not be incorporated into any goal or any productive purpose, other than issuance of a newsletter of questionable importance.

One of the issues raised in the report, and which needs to be addressed immediately, is that the corporation is viewed within the Long Beach community as being arrogant, extravagant and unresponsive to the needs and desires of their low-income clientele. This is largely due to the professional style of the Chief Executive Officer who is perceived as being lavish and unresponsive and is the antithesis of the role of an anti-poverty agency director.

Respectfully submitted,



WALTER M. INGALLS  
Chairman, Joint Legislative  
Audit Committee

WMI:smh



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Auditor General

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August 11, 1982

Letter Report 222

Honorable Walter M. Ingalls  
Chairman and Members of the  
Joint Legislative Audit Committee  
925 L Street, Suite 750  
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to a request by the Joint Legislative Audit Committee, we have reviewed the operations of the Long Beach Community Services Development Corporation, Inc. (corporation), a nonprofit corporation receiving state and federal funding to serve low-income residents of Long Beach. The audit was conducted under the authority vested in the Auditor General by Sections 10527 through 10528 of the Government Code. Further, we conducted this audit in accordance with generally accepted governmental auditing standards, except that our work was limited to that requested by the Legislature.

The primary objective of the audit was to determine if the corporation is effectively using its resources to serve the low-income residents of Long Beach. We were asked to answer questions concerning the corporation's staffing and administrative expenses, the selection of program participants, the number of clients served, and the achievement of organizational goals.

In general, the corporation and its delegate agencies met or exceeded the goals approved by the Board of Directors for 1981 to provide services to low-income residents of Long Beach. However, several former and current board members and some delegate agency directors perceive the corporation's management to be extravagant and question whether the corporation's resources are being used to benefit the poor people of Long Beach. While we noted some internal management and operational deficiencies, most of these deficiencies had been identified in a previous financial audit, and the corporation has taken the appropriate action to correct the majority of them.

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### BACKGROUND

The Long Beach Community Services Development Corporation, Inc., is a private, nonprofit California corporation. It was formed in August 1979 to promote, develop, and manage a diversified program of assistance for low-income residents of the City of Long Beach. The corporation's specific mission is to reduce and help eliminate the causes of poverty.

The Long Beach City Council designated the corporation as a Community Action Agency in October 1979. This designation signifies that the corporation is the city's official anti-poverty agency and is authorized to receive federal funds. Before the corporation's designation, the City of Long Beach itself was the designated Community Action Agency. The federal funding source, the Community Services Administration, recognized the corporation's designation in November 1980. As the Community Action Agency, the corporation provides both direct services to eligible participants and funding to seven delegate agencies that in turn offer programs for qualified low-income residents on behalf of the corporation. To qualify for services, area residents must first meet federal criteria on what constitutes low income.

### Organizational Composition

As of April 23, 1982, the corporation had 41 full-time and 14 part-time employees, including 13 part-time senior citizen aides. More than half of the budgeted positions are involved in providing direct services to clients.

The corporation's management receives policy direction from a 15-member board of directors, composed of five representatives selected from the public sector, five from the private sector, and five from among low-income residents. The board has the power to appoint and remove all officers and directors of the corporation, including the chief executive officer. The board also determines fiscal and program policies, plans programs, and sets priorities; it also oversees the extent of the participation by the poor in the corporation's programs.

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The Long Beach City Council is responsible for selecting public officials to serve on the board; however, the city council has chosen to delegate this power to the corporation. Once selected, a public official may choose one permanent spokesperson to serve on the board in his or her place.

The private sector members of the board must be representatives of civil rights and tenant groups, trade associations, banks, housing developers, and business, professional, private education, labor, and religious organizations. Initially, the private sector group was chosen by the founding interim board established by the Long Beach City Council. Now, all private sector groups are selected by the presiding board. Each group selects an individual to represent it on the board.

Members from the low-income community are nominated and chosen by the poor through a democratic election process. For planning purposes, the corporation divided the city into five districts, each of which has about 8,000 low-income residents. One low-income member is elected in each of these five districts.

#### Programs Offered

The corporation provides direct services to clients in the areas of youth development, energy services, and community services. It also funds seven delegate agencies to provide a variety of programs.

The goal of the youth development programs is to provide low-income, disadvantaged youth with alternative education and employment opportunities. The youth development programs include the following: two alternative education learning centers, a drug and rehabilitation center, youth employment programs, a vocational assessment center, a training and career guidance program for the handicapped, and a youth ex-offender program.

The energy services programs are the Energy Crisis Intervention Program and the Weatherization Assistance Program. The Energy Crisis Intervention Program helps pay the utility bills of those individuals unable to pay. The corporation makes payments of up to \$200 per participant directly to the local utility companies. The Weatherization Assistance Program provides weatherstripping and insulation for dwellings of

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low-income people in order to conserve energy and reduce utility costs. The cost of installing weatherization materials may not exceed \$1,000 per dwelling.

The aim of the community services programs is to ensure that all the services available to the low-income residents of Long Beach are used. Five community services specialists direct people through the network of services already provided in the community; they also counsel clients and help them find housing and employment. Other programs include a telephone information and referral system as well as discount and loan programs for senior citizens.

In addition to its direct service programs, the corporation also funds seven delegate agencies to provide the following programs for 1982: women and child abuse counseling services, homemaker services for senior citizens, energy advocacy for low-income residents, counseling for low-income Asians, and employment, counseling, and referral services for senior citizens.

#### Funding

Almost 85 percent of the corporation's \$1,375,095 budget for 1981 was federally funded. Administrative expenditures accounted for approximately 23 percent of the corporation's budgeted resources, while delegate agency expenses represented about 12 percent of the total funds spent in 1981.

Table 1 on the following page summarizes the corporation's total budgeted funds for 1980 through 1982 (estimated). Table 2 summarizes its administrative and operating expenses for 1981 and 1982, and the expenditures of delegate agencies for 1980, 1981, and 1982 (estimated).

TABLE 1

LONG BEACH COMMUNITY SERVICES  
DEVELOPMENT CORPORATION, INC.  
TOTAL FUNDS 1980 THROUGH 1982  
(Unaudited)

Source of Funds	<u>1980<sup>a</sup></u>	<u>1981</u>	<u>1982</u> (Estimated)
Federal	\$694,933	\$1,166,248	\$1,051,140
State	3,225	41,477	207,876
Other	<u>1,918</u>	<u>167,370<sup>b</sup></u>	<u>296,882<sup>c</sup></u>
Total	<u>\$700,076</u>	<u>\$1,375,095</u>	<u>\$1,555,898</u>

<sup>a</sup> Covers the 14 months ended December 31, 1980.

<sup>b</sup> Includes funds for programs operated by the corporation without direct funding but including documented donated services.

<sup>c</sup> Includes funds for programs operated by the corporation with funding from the City of Long Beach and Los Angeles County, and programs without direct funding.

TABLE 2

CORPORATION ADMINISTRATIVE AND OPERATIONAL  
EXPENDITURES 1980 THROUGH 1982

Expenditures	<u>1980<sup>a</sup></u>	<u>1981</u>	<u>1982</u> (Estimated)
Administration	NA	\$ 316,682	\$ 199,365
Operations	NA	\$1,058,413	\$1,356,533
Delegate agencies <sup>b</sup>	\$338,886	\$ 167,902	\$ 183,810

<sup>a</sup> Covers the 14 months ended December 31, 1980.

<sup>b</sup> Delegate agency expenses are included in the total expenditures for operations.

Sources: 1980 -- Windes and McClaughry, the corporation's independent auditor.

1981, 1982 -- Long Beach Community Services Development Corporation Inc.

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### SCOPE AND METHODOLOGY

The primary focus of this study was to evaluate the effectiveness of the corporation's programs for 1981. Additionally, we reviewed its operations to determine if the corporation achieved its organizational goals for 1981, whether low-income residents benefited from its programs, how the corporation used its staff, how it provided direct services to clients, and whether all employees were properly paid for their services.

We also reviewed the procedures and the statistics that the corporation uses to determine the number of low-income residents in Long Beach and the method it uses to select participants for the programs. While we did not conduct a financial audit, we did review some aspects of the corporation's internal accounting controls, the financial audit reports for calendar years 1980 and 1981 prepared by the corporation's independent auditing firm, and the auditing firm's workpapers for the audit of 1981 activities.

In conducting this audit, we interviewed corporate staff, board members, and local, state, and federal government officials; examined operational policies, procedures, files, and management reports; visited delegate agencies; and contacted former program participants.

### AUDIT RESULTS

In this section, we discuss four recognized management responsibilities and functions that encompass the specific questions we were asked to address. These functions, which include planning, organizing, directing, and controlling, served as our guideline for reviewing the corporation and its overall effectiveness.

#### Planning Function

Planning is the process of looking ahead, deciding what results are to be achieved, when, how, and by whom, and projecting how much such actions will cost. This function involves both program and financial planning. In this case, program planning included assessing and ranking the needs of the community, and



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establishing program goals and activities to address those needs. Financial planning consists of maintaining a reliable accounting system, following prescribed financial procedures, and budgeting resources accurately.

### Program Planning

The corporation performs both short- and long-range program planning under the direction of its board of directors. However, the program priorities of the corporation differ from those of the community. Each year the corporation prepares a one-year work program for the Community Services Administration. This one-year work program is based on a multi-year program plan that ranks the goals and activities of 13 program areas for the next four years. The multi-year plan is the result of a federally funded study that the corporation conducted in 1980 to identify the most pressing needs of the poor in Long Beach. The study examined the demographic characteristics of Long Beach's poverty population, the social profile of the community, the perceptions of the community and low-income residents of what was needed, and the availability of community services. Information sources included, but were not limited to, 1970 census data, statistics on local income, employment, housing, and health care, and a series of community surveys and public hearings.

Our study revealed a disparity between the priority needs identified by the community and those contained in the corporation's multi-year program and the 1981 annual work program. As reflected in two community surveys and five public hearings, the community ranked transportation, emergency aid, health services, employment-related services, such as employment training and child care, and education as the areas of greatest need. The corporation's work programs do not recognize any of these as high priority areas. In fact, the corporation's first five work program priorities for 1981 were not mentioned in the community surveys or public hearings, and furthermore, they do not correspond to priorities that the corporation identified in its needs assessment document.

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The corporation's high priority programs for 1981 were youth, adult, and senior citizen advocacy, institutional change, and the community management information system. The total amount budgeted for these five programs was approximately \$449,000, of which about \$357,000 was actually spent. This amount represents approximately 26 percent of the corporation's total expenditures for 1981. However, despite the fact that the corporation's 1981 work program did not reflect the community's perceived highest priorities, the Community Services Administration approved and funded the work program.

The corporation's bylaws empower the board of directors to determine program and fiscal policies, as well as overall program plans and priorities; the board also has final approval of all program proposals and budgets. However, some of the former and present board members have voiced concern about the board's limited role in policy and planning decisions and about the lack of sufficient program and financial information for making decisions.

We interviewed 4 former board members and 11 of the 12 current board members (there are 3 vacancies) to determine if they had been advised before management made any major decisions. Of the 15 respondents, 10 said that they were always briefed on all major decisions, while 4 claimed that they had not been aware of decisions made by management because information had been withheld. One respondent who was newly appointed to the board had no comment.

Regarding the sufficiency of program and financial information, 9 of the 15 respondents stated that they generally received timely, adequate data to make sound policy and planning decisions; 5 answered that information was either late, withheld, or missing. One board member said that the financial statements could be improved by making them more detailed, and 2 respondents reported that financial statements and the minutes of meetings were late in the past but had recently been arriving on time. Also, 2 former and 3 current board members alleged that the minutes of the board meetings were inaccurate; however, our review of the minutes from January 1981 to March 1982 indicates that the board approved all the minutes.

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### Financial Planning

In general, the corporation appears to have a reliable accounting system, and personnel follow prescribed financial procedures. Based on our review of the corporation's chart of accounts, the independent auditing firm's workpapers, and our discussions with the corporate accountant, the corporation's accounting system seems to identify receipts and expenditures of funds adequately. Procedures for cash disbursements, payroll, financial reporting, and internal control also appear to be adequate and adhered to.

Although the corporation's independent auditor did not question any costs for 1980, the financial audit of 1980 activities cites management deficiencies in time reporting, cash disbursement practices, budgetary information, and some other areas. Based on the financial audit of 1981 activities, the corporation appears to have taken appropriate corrective action to implement the majority of the auditor's recommendations. For calendar year 1981, the independent auditor did question one unauthorized purchase of a computer, but due to the circumstances concerning the purchase, the auditor recommended retroactive approval of the purchase.

During 1981, the corporation's principal source of funds was the Community Services Administration grant of \$1.12 million. Our analysis of the expenditures of this grant indicates that the corporation's budgeting was substandard and contributed to the corporation's administrative cost rate of 23 percent, which exceeds the 15 percent guideline allowed by the federal government.

The 1981 work program budget originally submitted to the Community Services Administration consisted of 4 program accounts or cost centers: administration, community programs, homemaker services for senior citizens, and senior citizen advocacy. By May 1981, the number of cost centers for the grant was increased to 18, with 7 of these cost centers assigned to delegate agency accounts. Our analysis of the budgeting of the 18 cost centers at year's end shows that funds were significantly overspent (greater than 10 percent) in 5 program accounts and significantly underspent in 4 others. For example, the Youth Development Program learning center account and the administrative account exceeded their budgeted amounts by 69.4 percent and 13.6 percent, respectively. Conversely,

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the senior citizen advocacy cost center budget was underspent by 58.8 percent. There were no budgeting problems with the 7 delegate agency accounts.

The corporation's deputy director contends that the poor budget planning and the excessive administrative rate were caused by the lack of information on organizational spending trends and the shift made in accounting at mid-year from 4 to 18 cost centers. Because 1981 was the first year that the corporation operated any of its own programs, there were no historical data available upon which to base expenditure projections. Consequently, it appears that many of the 1981 program account budgets were unrealistic and were significantly overspent or underspent. Management claims that the availability of some expenditure data should greatly improve the accuracy of the budget for the 1982 program year.

Management reported that during the first half of 1981, all expenditures were lumped into administration because the corporation was not operating any programs. Due to late federal funding, the corporation did not begin administering programs until mid-1981. The number of cost centers was increased to account for the new funds. The expenditures charged to administration for the first half of the year were also reassigned to the new cost centers. The deputy director claims that by the time all the expenditures were appropriately reassigned in December 1981, management realized that the corporation had exceeded the allowable administrative cost rate.

According to a regional manager of the Community Services Administration, the corporation will probably not suffer any consequences for the administrative cost overrun. Federal policy states that the Community Services Administration may issue a waiver to a new Community Action Agency if initial program planning and development activities result in unusually high administrative costs. In the past, if its program performance was good, the Community Action Agency was generally issued a waiver and told to correct the cost overrun by the end of the next fiscal audit period. The regional manager of the Community Services Administration also said that administrative rates vary widely, from 10 to 25 percent, and that the newer

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organizations usually experience the higher rates. Consequently, if the corporation can demonstrate good program performance in 1981, it will probably receive a waiver for the administrative cost overrun in 1981.

However, we have reason to believe that the administrative cost rate may actually be higher than the reported 23 percent. In two programs, Training and Technical Assistance and Institutional Change, we found that a combined total of almost \$154,000 was spent during 1981. Yet, we were unable to document any goal-oriented productivity in either of these programs other than the production of newsletters.

#### Organizing Function

The organizing function involves putting together those resources necessary to fulfill recognized responsibilities. In our opinion, this includes providing a meaningful organizational structure, staffing activities with competent people, and maintaining accurate and current personnel policies, procedures, and position descriptions.

The corporation has a formal organizational structure, and it maintains and follows written personnel policies and procedures, as required by the Community Services Administration. In September 1981, the corporation's independent financial auditor recommended that the corporation update and standardize its personnel files. In response to this recommendation, the corporation recently hired a new personnel manager. She is concentrating her initial efforts on updating the personnel policies, procedures, and files. She has also analyzed the qualifications of the corporation's staff and found that most of the staff are well educated and experienced in their respective fields.

Our analysis of the corporation's budgeted staffing shows that of the corporation's 62 positions, 34 provide direct services to clients, while 28 provide supportive services, such as administrative and business services. As part of the analysis, we performed quarterly payroll testing for the last four quarters to determine if there had been any improper payroll expenditures. We found that all the payroll expenditures in our sample were authorized and appropriate and that there were no fictitious employees on the payroll.

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We also analyzed employee turnover and found that the corporation has experienced a turnover rate of 58 percent (60 separations) over the past two and one-half years. For 15 files sampled, 33 percent of the employee separations were resignations, 33 percent were terminations during the employee's probationary period, 27 percent were attributed to layoffs, and 7 percent were for miscellaneous reasons. Most of the resignations involved incumbents leaving for new jobs, while terminations were attributed to absenteeism and nonperformance during the probationary period. The layoffs were a result of a federal funding cut that the corporation experienced during 1982. The employee separations in our sample were evenly distributed among professional, program support, and clerical staff.

Corporate policy states that probationary employees may be terminated without cause during the probationary period and that layoffs may result from a cut in funds or a change in program. Despite the high turnover rate, we were unable to determine whether overall program performance suffered or benefited from the separations.

#### Directing Function

The directing function encompasses all of the day-to-day supervision and coordination between management and staff, and it involves implementing the planned work program both internally and through the delegate agencies. The directing function includes establishing rules, regulations, systems, and procedures, preparing schedules with goals and performance standards, and coordinating the work among the various operations.

#### The Corporation's Community Action Approach

The corporation uses a community action approach to providing services. Perhaps because of this approach, some community and board members question whether services are actually being provided to the poor. As a private firm, the corporation combines a private sector/business approach and a community action approach to providing human services. The corporation's community action approach is characterized by programs that will assist low-income residents in becoming self-sufficient. The corporation assesses and ranks the local needs of the poor,

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assists citizens in benefiting from the existing services within the community, involves the low-income community in planning and operating programs, develops strategies to address low-income needs, and promotes employment strategies. Although the corporation has subcontracts with seven delegate agencies to offer programs, it also provides a variety of direct service programs.

In contrast to the corporation's community action approach, before the corporation was established, the city's Department of Human Resources acted primarily as an administrative agency that subcontracted its programs to 17 delegate agencies. The Department of Human Resources operated as a traditional "pass-through" agency and did not provide any direct services. Consequently, when the corporation took over as the Community Action Agency and began to provide some of the services itself, many of the previously funded agencies lost their funding. According to some former and current board members and delegate agency directors, this action has contributed to some feeling of resentment toward the corporation.

In defense of the community action approach, a 1982 study conducted by the Institute for Local Self Government (affiliated with the League of California Cities) and funded by the Community Services Administration indicates that most successful Community Action Agencies (public and private) operated their own programs, while the Community Action Agencies with the worst performances were those that delegated all the programs.

#### Efficacy of the Corporation's Approach

In assessing clients' eligibility, the staffs of both the direct service program and the delegate agencies follow similar established procedures. Furthermore, individual client files, which include documentation of the services provided, are maintained in both the in-house programs and the delegate agencies.

The programs we examined contained specific, measurable performance standards or objectives. To ensure that the delegate agencies meet their contracted performance standards, the corporation employs a contracts compliance specialist to provide technical assistance to the delegate agencies. The

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contracts compliance specialist's duties include interpreting procedural changes, clarifying data requested by the corporation, and assisting in preparing documents and information to be submitted by the delegate agencies.

According to the directors of some of the delegate agencies, the contracts compliance specialist is well-received by the delegate agencies, but the corporation has a public relations problem within the community. Several delegate agency directors and present and former members of the corporation's board of directors, told us that they view the corporation as being arrogant and extravagant primarily because the personal style of the Chief Executive Officer is perceived as lavish and unbecoming to the role of an anti-poverty agency director. These individuals believe that the corporation's funding is not being used to serve low-income residents. However, program statistics cited later in this report (page 16) indicate that, in general, the corporation and its delegate agencies are meeting and in most cases, exceeding their goals in providing services to low-income residents.

In addition, some delegate agency directors have complained about the corporation's lack of flexibility and the late reimbursements resulting from misplaced financial and management reports. The corporation's management contends that the delegate agencies mistakenly view the corporation's enforcement of procedural requirements as a lack of flexibility, and that the delegate agencies have been remiss in submitting required documents. We were unable to determine who was at fault in either of these situations; however, services to low-income residents were not disrupted.

#### Controlling Function

Controlling is the process of periodically monitoring and evaluating performance by measuring it against established standards and then making decisions to take prompt corrective action. In our opinion, this can be accomplished through periodic external monitoring or through an internal, self-administered management information and reporting system.

Both the direct service programs and the delegate agencies generate monthly performance reports. The supervisors of the direct service programs prepare monthly activity summaries, while the directors of the delegate agency prepare monthly



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program and financial reports. The corporation's contracts compliance specialist makes weekly field visits to the delegate agencies to review client files and to verify performance data submitted by the agencies. Delegate agencies are not reimbursed for their services until this verification process has been completed and the financial report has been approved by the business office.

We contacted a sample of 22 energy program recipients and made site visits to direct service programs and to five delegate agencies to observe program activities and to review client files. In each instance, we found that services were being provided as reported and that client files generally contained complete and accurate information. Table 3 summarizes the program accomplishments of the corporation and its delegate agencies for 1981.

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TABLE 3  
LONG BEACH COMMUNITY SERVICES  
DEVELOPMENT CORPORATION, INC.  
1981 PROGRAM ACCOMPLISHMENTS

<u>Program<sup>a</sup></u>	<u>Accomplishments</u>		<u>Percentage Over (Under)</u>
	<u>1981 Goal</u>	<u>1981 Actual</u>	
Adult Advocacy Participants	1,104	1,337	21.1%
Youth Advocacy Participants	1,760	3,101	76.2%
Units of Service	91,520 hrs.	144,679 hrs.	58.1%
Senior Advocacy Participants	552	682	23.6%
Training and Technical Assistance Units of Service	2,880 hrs.	No Documentation	
Institutional Change Units of Service	1,920 hrs.	No Documentation	
Newsletters	2,500	180,000	7,100.0%
Alternative Education for Youth Participants	350	375	7.1%
Units of Service	38,400 hrs.	54,750 hrs.	42.6%
Youth Leadership Participants	10	10	--
Units of Service	40 hrs.	86 hrs.	115.0%
Weatherization Program Participants	40	47	17.5%
Low-Income Energy Assistance Program Participants	500	600	20.0%
Organizations	450	450	--
Family Stress Reduction <sup>b</sup> Cedar House--Units of Service	3,000 hrs.	3,334 hrs.	11.1%
YWCA--Units of Service	800 hrs.	865 hrs.	8.1%
Homemaker Services for Seniors <sup>b</sup> Units of Service	8,461 hrs.	8,462 hrs.	--
Senior Day Care <sup>b</sup> Units of Service	4,800 hrs.	6,634 hrs.	38.2%
Senior Opportunities and Services <sup>b</sup> Participants	1,270	1,654	30.2%
Community Improvement League Participants	87	122	40.2%

a See Appendix A for descriptions of the program areas.

b Delegate agency program.

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As Table 3 indicates, with the exception of the Training and Technical Assistance Program and the Institutional Change Program which lacked documentation, the corporation and its delegate agencies met or exceeded their planned program goals for 1981.

#### CONCLUSION

The Long Beach Community Services Development Corporation, Inc., is appropriately using its resources to serve the low-income residents of Long Beach. However, our review of the corporation's management functions indicates that there is some disparity between program priorities identified by the community and those contained in the corporation's 1981 work program, and that substandard program budgeting and delayed federal funding in 1981 resulted in an excessive administrative cost rate. Additionally, in its first year of providing direct services, the corporation has experienced a high employee turnover rate and uses a community action approach to providing human services instead of serving as a traditional administrative pass-through agency. This approach and the negative perceptions of the corporation's management have raised concerns from some members of the community about whether services are actually being provided to low-income residents of Long Beach. However, we determined that the corporation and its delegate agencies did meet, and in most cases, exceeded their 1981 service goals except for two programs that could not document their actual accomplishments.

Respectfully submitted,



THOMAS W. HAYES  
Auditor General

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Walter M. Reno, CPA

Attachments: Response to the Auditor General's Report  
Office of Economic Opportunity  
Long Beach Community Services  
Development Corporation, Inc.  
Appendix A



EDMUND G. BROWN JR.  
GOVERNOR

State of California  
GOVERNOR'S OFFICE  
OFFICE OF ECONOMIC OPPORTUNITY  
1600 NINTH STREET, ROOM 340  
SACRAMENTO 95814

August 4, 1982

Mr. Thomas W. Hayes  
Auditor General  
State of California  
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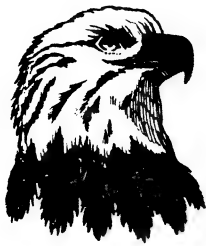
Dear Mr. Hayes:

I have reviewed the audit report prepared by your office concerning the Long Beach Community Services Development Corporation dated July 26, 1982. I have the following comments:

1. Criticisms of the agency are similar to those of other agencies in that restructuring of programs and services frequently result in complaints.
2. The results of the audit, as related to OEO programs of weatherization and Energy Crisis Intervention Program (ECIP), found them to be productive and without criticism as to funding or program accomplishments.

Sincerely,

  
ALICE A. HUFFMAN  
Director



## Long Beach Community Services Development Corporation, Inc.

Office of the Board Chairman

4 August 1982

Mr. Thomas W. Hayes  
Auditor General  
State of California  
Office of the Auditor General  
660 J Street, Suite 300  
Sacramento, California 95814

Dear Mr. Hayes:

In response to your letter dated 26 July 1982, we met with representatives of your office on Friday, 30 July 1982, here in Long Beach to review and critique the draft copy of your letter report concerning the effectiveness of this new, private/non-profit, Community Action Agency. We are appreciative of the high level of integrity and professionalism exhibited by your staff members in conducting this review, and found that the intense scrutiny and evaluation of the review process, while rather time-consuming, did afford us an opportunity to more closely re-examine a number of issues of interest to us. We are pleased to note that the findings of the report do not contain any illegal/improper transactions nor present facts not previously known, EXCEPT, that the Corporation significantly exceeded the various community service goals it was contracted to deliver. In view of the report's clarity and accuracy, we shall limit this letter of response to elaborating on several conceptual issues which provide some further perspective with which to more fully understand the report.

These conceptual issues (and their reference in the report) include: 1) utilization of the CSA-mandated community needs assessment in program planning (pp. 7 & 8); 2) process of board decision-making (p. 8); 3) factors contributing to exceeding the federal government's 15% administrative cost rate (pp. 9-11); 4) employee turnover factors (p. 12); 5) relationship between dissatisfied delegate agency directors/board members and the Corporation's direction (p. 14); and 6) a prospective outlook on the Corporation's future vis-a-vis public opinion on social services.

- 1) Utilization of the CSA-Mandated Community Needs Assessment in Program Planning (pp. 7 & 8). There is a general misconception in the report that the needs assessment should have been applied toward 1981 program planning as a prescription. This simplified planning approach was, and is not, possible for a variety of reasons including: consideration given to historically-based funding for

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Malcolm C. Todd, M.D.  
Founding Chairman of the Board

1) Utilization of the CSA-Mandated Community Needs Assessment in Program Planning (pp. 7 & 8). (Cont'd)

delegate agencies, start-up of the Corporation as a direct services provider, CSA-required institutional change requirements, and the impracticality of initiating some major interventions with highly limited funding. In essence, the needs assessment is a background document with which the Corporation's program planning must be compatible but not necessarily prescriptive. Pragmatically, in addition to the aforementioned influencing factors, the Corporation's work program is a "best fit" attempt at integrating community needs, attention to the magnitude and severity of problem areas, consistency of possible program interventions with Corporation's mission, and consideration of community resources available.

2) Process of Board Decision Making (p. 8). Suffice to say, and contrary to what some may believe, all major policy decisions of the Corporation result from board committee recommendations/reports which are received by all board members (also included are the two major local newspapers and the City Library) and approved by majority opinion of the board itself.

3) Factors Contributing to Exceeding the Federal Government's 15% Administrative Cost Rate (pp. 9-11). As well-detailed in the Corporation's 1981 consolidated annual audit report, conducted by Windes & McClaughery Accountancy Corporation, "since the corporation was still involved in initial planning and the development of new programs, high administrative costs are not unusual and, in fact, anticipated by CSA and allowed for through a waiver process. Another contributing factor has been the slow development of documentation of in-kind contributions from the community. Such contributions are program oriented, and would help lower the percent of administrative costs composed to total costs." Furthermore, "in addition to the two major contributing factors noted by the auditors, the four months 1981 late start-up of programs because of lack of CSA funds contributed significantly to increasing some imbalance in the relationship between administrative and program costs."

4) Employee Turnover Factors (p. 12). Apart from observations noted in the report, we believe employee turnover has been high because staff salaries are not competitively adjusted with regard to prevailing government and private sector positions. In addition, the Corporation's hiring practices based on rapid program start-up's and limited employee application pools have not been as satisfactory as desired. However, it is our impression that employee turnover is decreasing as the Corporation's programs become more established.

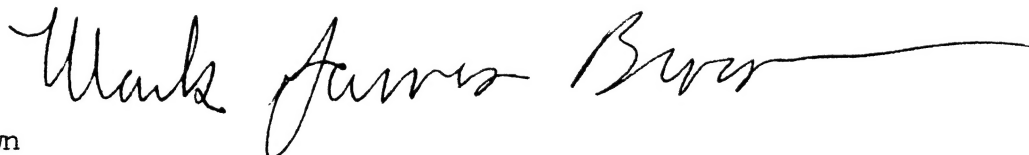


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- 5) Relationship Between Dissatisfied Delegate Agency Directors/Board Members and the Corporation's Direction (pp. 12-14). There is little doubt that the direction of the Corporation has changed from merely an administrative "pass-through" toward a more unifying concept involving direct client services, advocacy, program development, consolidation of services/costs, and a locally unprecedented public accountability. In the process, clearly some "turf-guarding" has been perceived as being violated, the change of direction which has become necessary because of shrinking commitments to the poor and disadvantaged has created antagonism among some board/agency members previously directing or benefiting from the flow of program dollars; and in some cases, there has been simply an honest difference of opinion. However, in all cases, by democratic majority means, the board of directors has approved the Corporation's policy direction. Unfortunately, much of the vocal minority opposition has been inappropriately redirected as personal attacks on the Corporation's Chief Executive Officer (who in establishing the Corporation with the Founding Chairman of the Board clearly guided the Corporation from its initiation with a \$50,000 co-signed personal bank loan to the current annualized budget of nearly \$4½ million and a staff of over 200 individuals with the addition of the HeadStart Program). Perhaps the business/private sector approach being used is, in the eyes of some, inappropriate. However, perhaps it is long overdue.
- 6) A Prospective Outlook on the Corporation's Future Vis-A-Vis Public Opinion on Social Services. Although the 1960's generous public financing and extensive media support for human service programs are quickly fading, the need for addressing low-income concerns is rapidly growing. We believe that our approach will stand the tests of time and we shall build upon whatever opportunities present themselves in our efforts "to stimulate a better focusing of all available local, State, private, and Federal resources upon the goal of enabling low-income individuals and families to attain the skills, knowledge, and motivations and secure the opportunities needed for them to become fully self-sufficient."

Thank you for your cooperation and consideration.

Sincerely,



Mark James Brown  
Chairman, IBCSDC Board of Directors

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DESCRIPTIONS OF PROGRAMS

Adult Advocacy helps low-income adults receive the tax-supported services they are entitled to from county and federal agencies.

Youth Advocacy is designed to broaden the educational, recreational, and career development opportunities of low-income youths by making use of various local organizations.

Senior Advocacy assists older poor people in receiving the benefits due them and the financial assistance they need from county and federal agencies.

Training and Technical Assistance provides services to community-based organizations that serve low-income residents within the corporation's jurisdiction.

Institutional Change is a program designed to bring about administrative reform in both entitlement programs and private organizations to increase the quality and quantity of services provided to low-income Long Beach residents.

Alternative Education for Youth provides an accredited education program for low-income youths who have been excluded from the regular secondary school system.

Youth Leadership brings westside area gangs together to establish a mutual working relationship among them.

Weatherization Program provides weatherstripping and insulation for dwellings of low-income people.

Low-Income Energy Assistance Program pays the utility bills of those unable to pay.

Family Stress Reduction provides residential treatment for battered women and their children and for families involved in child abuse and neglect.

Homemaker Services for Seniors provides in-home services to low-income senior citizens in Long Beach to enable them to continue living independently in their own homes and thus avoid institutionalization.

Senior Day Care provides supportive and rehabilitative day-care services to older low-income people in Long Beach to enable them to avoid institutionalization.



Senior Opportunities and Services serves as an advocate for older poor people in the areas of housing, food, and employment.

Long Beach Community Improvement League operates a child day-care center for preschool children that provides them with good nutrition and nutrition education.